

Auditing Procedures Report

Issued under P.A. 2 of 1966, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name Lilley Township	County Newaygo
Fiscal Year End 6/30/06	Opinion Date 2/21/07	Date Audit Report Submitted to State 2/26/07	

We affirm that:


We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- YES NO **Check each applicable box below.** (See instructions for further detail.)
- ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 - ☐ ☒ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 - ☐ ☒ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 - ☒ ☐ The local unit has adopted a budget for all required funds.
 - ☒ ☐ A public hearing on the budget was held in accordance with State statute.
 - ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 - ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 - ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
 - ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 - ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 - ☒ ☐ The local unit is free of repeated comments from previous years.
 - ☒ ☐ The audit opinion is UNQUALIFIED.
 - ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 - ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
 - ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) Hendon & Slate, P.C.		Telephone Number 231-924-6890	
Street Address 711 W. Main Street		City Fremont	State MI
		Zip 49412	
Authorizing CPA Signature 		Printed Name Jodi A. DeKuiper	License Number 1101021180

**LILLEY TOWNSHIP
NEWAYGO COUNTY, MICHIGAN**

FINANCIAL STATEMENTS

JUNE 30, 2006

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LILLEY TOWNSHIP

Board Members

	<u>Position</u>
Jack Hoving	Supervisor
Marlene Stroop	Clerk
Kathryn Way	Treasurer
Mitchell Barron	Trustee
Lois Sprague	Trustee



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



Township Board
Lilley Township
Newaygo County
Bitely, MI 49309

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Lilley Township as of and for the year ended June 30, 2006, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Townships' management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the general purpose financial statements are free from material misstatement. An audit includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Lilley Township, Michigan as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note A, the Township adopted Governmental Accounting Standards Board Statement Number 34 during the current year. As a result, these financial statements present entirely new financial information. Governmental activities report information by individually significant fund, as well as in total on the full accrual basis of accounting.

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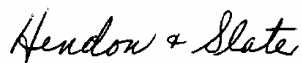
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The management's discussion and analysis and budgetary comparison information on pages 3 through 5 and 20 through 23, are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Lilley Township, Michigan's basic financial statements. The combining non-major and individual fund statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining non-major and individual fund financial statements have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Hendon & Slate, P.C.
Certified Public Accountants
February 21, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

Using this Annual Report

This annual report consists of a series of financial statements. The Governmental Wide Statement of Net Assets and the Government Wide Statement of Activities provide information about the activities of the Township as a whole and present a longer-term view of the Township's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Township's operations in more detail than the government-wide financial statements.

The Township as a Whole

The Township's combined net assets increased 14.4% from a year ago - increasing from \$488,732 to \$559,283. In a condensed format, the table below shows key financial information (in future years, when more information is available, a comparative analysis will be made):

	Governmental Activities <u>2006</u>
Current Assets	\$ 349,879
Noncurrent Assets	<u>286,628</u>
Total Assets	<u>\$ 636,507</u>
Long-Term Debt Outstanding	\$ 71,167
Other Liabilities	<u>6,057</u>
Total Liabilities	<u>\$ 77,224</u>
Net Assets	
Invested in Capital Assets-Net of Debt	\$ 215,461
Unrestricted	<u>343,822</u>
Total Net Assets	<u>\$ 559,283</u>

Unrestricted net assets - the part of net assets that can be used to finance day to day operating, increased by approximately \$22,000 for the governmental activities. This represents an increase of approximately 6.8%.

Management's Discussion and Analysis (Continued)

	Governmental Activities <u>2006</u>
Program Revenues	
Charges for Services	\$ 16,314
General Revenues	
Property Taxes	187,512
State Shared Revenues	56,156
Refunds & Rebates	51,883
Rentals & Royalties	561
Interest	<u>675</u>
Total Revenues	\$ 313,101
Program Expenses	
General Government	77,430
Public Safety	90,044
Public Works	58,031
Community & Economic Development	7,904
Other	<u>18,854</u>
Total Expenses	<u>252,263</u>
Change in Net Assets	<u><u>\$ 60,838</u></u>

The Township's total net assets continue to remain healthy. This is attributed to monitoring the budget to actual total expenditures and maintaining a prudent attitude towards spending.

Governmental Activities

The Township's total governmental revenues increased by approximately \$17,000. The following revenues increased: property taxes increased \$9,417, or 5.3%; grants increased \$5,648, or 139%; and charges for services increased \$2,808, or 21%.

Expenses increased by about \$58,000 over the prior year which is mostly due to the addition to the fire barn.

Management's Discussion and Analysis (Continued)

Business-Type Activities

The Township had not business type activities.

The Township's Fund

Our analysis of the Township's major funds follows the entity wide financial statements. The fund financial statements provide detail information about the most significant funds, not the Township as a whole. The Township Board creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Township's major funds for 2006 include the General Fund, the Road Fund, the Fire Fund, and the Sanitation Fund.

General Fund Budgetary Highlights

Over the course of the year, the Township Board amended the budget to take into account events during the year, however, there were a few instances in which the Board did over-expend as reported in the notes to the financial statements.

Capital Asset and Debt Administration

At the end of 2006, the Township had \$286,628 invested in a broad range of capital assets, including land, buildings, vehicles, and equipment. In addition, the Township has invested significantly in roads within the Township. These assets are not reported in the township's financial statements because of Michigan law, which makes these roads property of the Newaygo County Road Commission (along with the responsibility to maintain them).

Contacting the Township's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.

LILLEY TOWNSHIP

Government Wide Statement of Net Assets June 30, 2006

	Governmental Activities
ASSETS	
Cash	\$ 330,961
Prepaid Insurance	2,116
Accounts Receivable	16,802
Capital Assets, Net	<u>286,628</u>
Total Assets	636,507
LIABILITIES	
Accounts Payable	3,827
Due to Other Units	2,230
Long-Term debt - Due in 1 year or less	10,838
Long-Term debt - Due in more than 1 year	<u>60,329</u>
Total Liabilities	<u>77,224</u>
NET ASSETS	
Invested in Capital Assets	
Net of Related Debt	215,461
Unrestricted	<u>343,822</u>
Total Net Assets	<u><u>\$ 559,283</u></u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Government Wide Statement of Activities For the Year Ended June 30, 2006

		<u>Program Revenues</u>		Net (Expenses) Revenue and Changes in Net Assets
	<u>Expenses</u>	<u>Charges for Services</u>	<u>Operating Grants and Contributions</u>	<u>Governmental Activities</u>
Primary Government				
General Government	\$ 77,430	\$ 16,314	\$ 6,982	\$ (54,134)
Public Safety	90,044	-	-	(90,044)
Public Works	58,031	-	2,731	(55,300)
Economic Development	7,904	-	-	(7,904)
Other	18,854	-	-	(18,854)
Total Primary Government	\$ 252,263	\$ 16,314	\$ 9,713	(226,236)
General Revenues				
Property Taxes - Levied for General Purpose				187,512
State Shared Revenue				56,156
Refunds & Reimbursements				51,883
Rentals & Royalties				561
Interest				675
Total General Revenues				296,787
Change in Net Assets				70,551
Net Assets - July 1, 2005				488,732
Net Assets - June 30, 2006				\$ 559,283

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Governmental Fund Balance Sheet June 30, 2006

	General Fund	Road Fund	Sanitation Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS						
Cash	\$ 127,398	\$ 21,721	\$ 115,107	\$ 54,218	\$ 12,517	\$ 330,961
Accounts Receivable	8,285	-	-	7,298	1,219	16,802
Due from Other Funds	-	-	3,656	-	-	3,656
Total Assets	<u>\$ 135,683</u>	<u>\$ 21,721</u>	<u>\$ 118,763</u>	<u>\$ 61,516</u>	<u>\$ 13,736</u>	<u>\$ 351,419</u>
LIABILITIES						
Accounts Payable	\$ 3,210	\$ -	\$ -	\$ 145	\$ 472	\$ 3,827
Due to Other Funds	3,656	-	-	-	-	3,656
Due to Other Governments	2,230	-	-	-	-	2,230
Total Liabilities	9,096	-	-	145	472	9,713
FUND BALANCES						
Unrestricted	126,587	21,721	118,763	61,371	13,264	341,706
Total Fund Balance	126,587	21,721	118,763	61,371	13,264	341,706
Total Liabilities and Fund Equity	<u>\$ 135,683</u>	<u>\$ 21,721</u>	<u>\$ 118,763</u>	<u>\$ 61,516</u>	<u>\$ 13,736</u>	<u>\$ 351,419</u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Assets For the Year Ended June 30, 2006

Total Governmental Fund Balances	\$ 341,706
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Total net assets reported for governmental activities in the statement of net assets are different from the amount reported as total governmental funds fund balance because:

Prepaid insurance reflects amounts that will be paid in a future period	2,116
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Notes payable are not due or payable in the current period and are not reported in the fund statements	(71,167)
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Capital assets used in governmental activities are not financial resources and therefore are not reported in the fund statements. Amounts reported for governmental activities in the statement of net assets:

Governmental Capital Asset	\$ 602,072	
Governmental Accumulated Depreciation	<u>(315,444)</u>	<u>286,628</u>

Total Net Assets - Governmental Activities:	<u><u>\$ 559,283</u></u>
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The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Governmental Fund Statements of Revenue, Expenditures, and Changes in Fund Balance For the Year Ended June 30, 2006

	General Fund	Road Fund	Sanitary Waste Fund	Fire Fund	Non-Major Governmental Funds	Total Governmental Funds
Revenues						
Property Taxes	\$ 41,550	\$ 26,228	\$ 78,667	\$ 35,208	\$ 5,859	\$ 187,512
State Shared Revenue	56,156	-	-	-	-	56,156
Grants	6,982	2,731	-	-	-	9,713
Licenses and Permits	710	-	-	-	14,946	15,656
Charges for Services	268	-	-	-	390	658
Refunds and Reimbursements	55	2,133	-	49,695	-	51,883
Rentals and Royalties	561	-	-	-	-	561
Interest	675	-	-	-	-	675
Total Revenues	106,957	31,092	78,667	84,903	21,195	322,814
Expenditures						
General Government	84,856	-	-	-	4,497	89,353
Public Safety	6,768	-	-	96,106	13,411	116,285
Public Works	-	25,936	42,540	-	-	68,476
Economic Development	7,904	-	-	-	-	7,904
Other	5,965	-	2,076	8,623	2,190	18,854
Total Expenditures	105,493	25,936	44,616	104,729	20,098	300,872
Excess Revenue Over (Under) Expenditures	1,464	5,156	34,051	(19,826)	1,097	21,942
Fund Balance - July 1, 2005	125,123	16,565	84,712	81,197	12,167	319,764
Fund Balance - June 30, 2006	<u>\$ 126,587</u>	<u>\$ 21,721</u>	<u>\$ 118,763</u>	<u>\$ 61,371</u>	<u>\$ 13,264</u>	<u>\$ 341,706</u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Reconciliation of Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities For the Year Ended June 30, 2006

Net Change in Fund Balances - Total Governmental Funds	\$	21,942
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Amounts reported for governmental activities in the statement of activities are different because:

Prepaid expenses reflect amounts that will be paid in a future period:

Current Year Prepaid Insurance	\$	2,117	
Prior Year Prepaid Insurance		<u>(2,227)</u>	(110)

Note payable principal payments are reported as an expenditure in the fund statements but not in the statement of activities (where it reduces long-term debt).		11,310
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The acquisition of capital assets are reported in the governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense

Capital outlay reported in governmental fund statements	83,922	
Capital outlay reported as expenses in the Statement of Activities	<u>(18,322)</u>	
The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase (decrease) in assets	65,600	
Depreciation Expense	<u>(28,191)</u>	<u>37,409</u>

Changes in Net Assets - Governmental Activities	\$	<u><u>70,551</u></u>
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The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Statement of Net Assets - Fiduciary Fund June 30, 2006

	<u>Trust and Agency Fund</u>
Assets	
Cash and Investments	<u>\$ -</u>
Total Assets	<u><u>\$ -</u></u>
 Liabilities and Net Assets	
Liabilities	
Due to Other Funds	\$ -
Due to County	-
Due to Schools	-
Due to Others	<u>-</u>
Total Liabilities	-
 Net Assets	
Unreserved	<u>-</u>
 Total Liabilities and Net Assets	<u><u>\$ -</u></u>

The Notes to the Financial Statements are an integral part of this statement

LILLEY TOWNSHIP

Notes to the Financial Statements
For the Year Ended June 30, 2006

NOTE A SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Lilley Township conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant policies used by Lilley Township.

In June, 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- a. A Management's Discussion and Analysis (MD&A) section providing an analysis of the Township's overall financial position and results of operations.
- b. Financial statements prepared using full accrual accounting for all of the Township's activities.
- c. A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements).

A. Reporting Entity

The reporting entity is a general law township as defined by the laws of the State of Michigan. The Township is governed by a Supervisor and Township Board.

As defined by Governmental Accounting Standards Board (GASB) No. 14, the financial reporting entity consists of (1) the primary government, (2) organizations for which the primary government is financially accountable, and (3) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The primary government has financial accountability if it:

1. Appoints a voting majority of the organization's board, and, has the ability to impose its will on the organization; or
2. There is a potential for the component unit to provide certain financial benefits to, or impose certain financial burdens on, the primary government.

Based on this criteria, there are no other entities included in this report.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment.

Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter is excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become susceptible to accrual, that is when they become both measurable and available to finance expenditures of the fiscal period.

1. State Shared Revenue Receivable

State Shared Revenue is distributed in six installments per year. Often the last payment has not been received by June 30, 2006; therefore, a receivable is recorded for this amount. For fiscal year-end June 30, 2006, the receivable amount was \$8,225.

2. Property Taxes Receivable

The Township property tax is levied on each December 1st on the taxable valuation of the property (as defined by state statutes) located in the Township as of the preceding December 31st. The taxes are due on September 14th and February 14th, with the final collection date of February 28th before they are added to the County tax rolls. The 2005 delinquent taxes were received during the fiscal year ended June 30, 2006, therefore, no receivable was recorded for this amount.

The 2005 taxable valuation of the Township totaled \$27,077,338 on which ad valorem taxes levied consisted of 1.2499 mills for general operations, 1.3044 mills for fire operations, 2.9142 mills for waste and transfer operations, .9714 mills for roads, and .2173 mills for cemetery operations raising \$33,729 for general operations, \$35,208 for fire operations, \$78,667 for waste and transfer operations, \$26,228 for roads, and \$5,859 for cemetery operations. These amounts are recognized in the respective general and special revenue fund financial statements as current tax revenue.

The government reports the following major governmental funds:

The General fund is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The Fire Fund accounts for the resources of property tax revenue and charges for services that are restricted for fire protection purposes.

The Sanitary Waste Fund accounts for the property tax revenues that are restricted for the operation of the transfer station.

The Road Fund accounts for the resources of property tax revenue, charges for services and PILT monies for the maintenance of Township roads.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in the government-wide financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board.

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

D. Assets, Liabilities, and Fund Balance

Bank Deposits and Investments - Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated as fair value. Pooled investment income is generally allocated to each fund based on the cash balance in each fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds". Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds".

Inventories and Prepaid Items - Payments for inventorable types of supplies are recorded as expenditures at the time of purchase. Normally expenditures are not divided between years by the recording of prepaid expenses. There were no material inventories at year end.

Capital Assets - Capital assets, which include property, plant and equipment, are reported in the applicable governmental activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$3,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives:

	<u>Years</u>
Buildings and	30
Land Improvements	15
Fire Trucks	8
Equipment	5 - 7

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Estimates - Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosures of contingent assets and liabilities, and the reported revenues and expenditures/expenses. Actual results may differ from those estimates.

NOTE B STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgetary Information - Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all governmental funds. All annual appropriations lapse at fiscal year end. The Township approves its originally adopted budget by the end of the current fiscal year. Amendments are approved periodically during the year.

The budget document presents information by fund, activity, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

The Township does not utilize encumbrance accounting.

Excess of Expenditures Over Appropriations in Budgeted Funds - During the year, the Local Governmental Unit incurred expenditures in certain budgeted funds which were in excess of the amounts appropriated, as follows:

<u>Budget Item</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
General Fund - Township Board	\$ 8,050	\$ 9,476	\$ (1,426)
General Fund - Assessor	12,950	13,130	(180)
General Fund - Clerk	11,195	13,502	(2,307)
General Fund - Twp. Hall & Grounds	23,000	34,492	(11,492)
General Fund - Planning	3,270	5,489	(2,219)
Fife Fund - Other	3,900	8,623	(4,723)
Fire Fund - Public Safety	82,395	96,106	(13,711)

NOTE C DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, authorizes the Township to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations which have an office in Michigan. The Township is allowed to invest in bonds, securities and other direct obligations of the United States or any agency or instrumentality of the United States; United States government or federal agency obligations; repurchase agreements; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits - The Township maintains pooled cash and investment accounts. Each fund type portion is displayed on the combined balance sheet as "Cash" under each fund's caption. All cash deposits are held in the Township's own name at Lake Osceola State Bank and Independent Bank West Michigan. Following is a schedule of cash insured by the Federal Deposit Insurance Corporation (FDIC).

The Township's deposits and investment policy are in accordance with statutory authority. The Township's deposits were reported in the basic financial statements in the following categories:

	<u>Carrying Value</u>	<u>Market Value</u>	<u>FDIC Insured</u>
Now Account	\$ 330,961	\$ 331,842	\$ 100,000
Tax Account	-	-	-
Total Deposits	<u>\$ 330,961</u>	<u>\$ 331,842</u>	<u>\$ 100,000</u>

Notes to the Financial Statements (continued)

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Township evaluates each financial institution with which it deposits Township funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments are normally categorized to give an indication of the level of risk assumed by the Township; however, cash management funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes the investments in the funds comply with the investment authority noted above.

NOTE D RECEIVABLES

Receivables as of year-end for the Township's individual major and non-major funds, and the fiduciary funds in the aggregate, including the applicable allowances for uncollected accounts, are as follows:

	General Fund	Fire Fund	Building Fund	Total
Accounts Receivable	<u>\$ 8,285</u>	<u>\$ 7,298</u>	<u>\$ 1,219</u>	<u>\$ 16,802</u>

NOTE E CAPITAL ASSETS

Capital asset activity of the primary government of the current year was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Capital Assets not being depreciated				
Land	\$ 31,210	\$ -	\$ -	\$ 31,210
Capital Assets Being Depreciated				
Land Improvements	22,290	8,709	-	30,999
Equipment	25,958	6,163	-	32,121
Vehicles	377,000	-	-	377,000
Buildings & Improvements	<u>80,014</u>	<u>50,728</u>	<u>-</u>	<u>130,742</u>
Subtotal	505,262	65,600	-	570,862
Less Accumulated Depreciation for				
Land Improvements	7,547	1,773	-	9,320
Equipment	3,586	3,877	-	7,463
Vehicles	259,328	20,317	-	279,645
Buildings & Improvements	<u>16,792</u>	<u>2,224</u>	<u>-</u>	<u>19,016</u>
Subtotal	<u>287,253</u>	<u>28,191</u>	<u>-</u>	<u>315,444</u>
Net Capital Assets being depreciated	<u>218,009</u>	<u>37,409</u>	<u>-</u>	<u>255,418</u>
Capital Assets - Net of Depreciation	<u>\$ 249,219</u>	<u>\$ 37,409</u>	<u>\$ -</u>	<u>\$ 286,628</u>

Notes to the Financial Statements (continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental Activities	
General Government	\$ 1,059
Fire Fund	25,110
Cemetery Fund	745
Transfer Station Fund	<u>1,277</u>
Total Governmental Activities	<u>\$ 28,191</u>

NOTE F INTERFUND RECEIVABLES AND PAYABLES

The composition of interfund balances is as follows:

Receivable Fund (Due From)		Payable Fund (Due To)	
General Fund	<u>\$ 3,656</u>	Transfer Station Fund	<u>\$ 3,656</u>
	<u>\$ 3,656</u>		<u>\$ 3,656</u>

NOTE G PENSION PLAN

The Township provides pension benefits to some of its full time employees through a defined contribution plan administered by Burnham & Flower Insurance Group. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by the Township Board, the plan is funded by a contribution from the Township of \$100 per range of \$500 of covered employees' salaries of a \$500 maximum contribution limited by Code Section 415 to 25% of a participant's annual compensation. The Township's contributions for each employee (plus interest allocated to the employee's account) are fully vested upon death, total disability, or attainment of normal retirement age (after six months of service). Upon early retirement or termination of employment for any reason, it shall vest in accordance with the vesting schedule in part 7 of the adoption agreement.

The Township's total payroll during the current year was \$53,384, of which \$17,290 was covered by the plan. The employer contribution made during the current year amounted to \$1,050.

NOTE H INSTALLMENT PURCHASE AGREEMENT

On November 12, 2001, the Township entered into an agreement with West Shore Fire, Inc. for the purchase of a 2000 Emergency One Fire Truck, with financing through Lake Osceola State Bank for \$119,000. Payments began December 12, 2001, at \$1,239.04 per month including interest. The annual requirement to amortize long-term debt outstanding as of June 30, 2006, including interest, is as follows:

Year Ended June 30	Fire Truck Loan
2007	\$ 14,868
2008	14,868
2009	14,868
2010	14,868
2011	14,868
Subsequent Years	<u>6,206</u>
Total Payments	80,546
Less Interest Portion	<u>(9,379)</u>
Principal Portion	<u>\$ 71,167</u>

Notes to the Financial Statement (Continued)

The following is a summary of Long-Term Debt transactions for the year.

	<u>Balance</u> <u>7/1/2005</u>	<u>Issued</u>	<u>Retired</u>	<u>Balance</u> <u>6/30/2006</u>
Fire Truck Loan	<u>\$ 82,478</u>	<u>\$ -</u>	<u>\$ 11,311</u>	<u>\$ 71,167</u>

Interest expense for the fiscal year end June 30, 2006 was \$3,558.

NOTE I RISK MANAGEMENT

The Township is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets and omissions; and natural disasters for which the Township carries commercial insurance. Liabilities in excess of insurance coverage, if any, are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated.

LILLEY TOWNSHIP

Required Supplementary Information Budgetary Comparison Schedule for General Fund For the Year Ended June 30, 2006

	Budgeted Amounts			Variance to
	Original	Final	Actual	Final Budget
Beginning Year Fund Balance - July 1, 2005	\$ 125,123	\$ 125,123	\$ 125,123	\$ -
Resources (Inflows)				
Property Taxes	41,750	41,750	41,550	(200)
State Shared Revenue	55,000	55,000	56,156	1,156
Local Grants	-	-	6,982	6,982
Licenses and Permits	1,600	1,600	710	(890)
Charges for Services	420	420	268	(152)
Refunds and Reimbursements	50	50	55	5
Rentals and Royalties	500	500	561	61
Interest	600	600	675	75
Amounts Available for Appropriation	225,043	225,043	232,080	7,037
Charges to Appropriations (Outflows)				
General Government	60,430	71,940	84,856	(12,916)
Public Safety	7,000	7,000	6,768	232
Community & Economic Development	10,365	10,365	7,904	2,461
Other	17,300	17,300	5,965	11,335
Total Charges to Appropriation	95,095	106,605	105,493	1,112
Budgetary Fund Balance - June 30, 2006	\$ 129,948	\$ 118,438	\$ 126,587	\$ 8,149

LILLEY TOWNSHIP

Required Supplementary Information
Budgetary Comparison Schedule for Road Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance to
	Original	Final	Actual	Final Budget
Beginning Year Fund Balance - July 1, 2005	\$ 16,565	\$ 16,565	\$ 16,565	\$ -
Resources (Inflows)				
Property Taxes	26,030	26,030	26,228	198
Grants	2,100	2,100	2,731	631
Licenses & Permits	5	5	-	(5)
Reimbursements	150	150	2,133	1,983
Amounts Available for Appropriation	44,850	44,850	47,657	2,807
Charges to Appropriations (Outflows)				
Public Works	28,080	28,080	25,936	2,144
Total Charges to Appropriation	28,080	28,080	25,936	2,144
Budgetary Fund Balance - June 30, 2006	\$ 16,770	\$ 16,770	\$ 21,721	\$ 4,951

LILLEY TOWNSHIP

Required Supplementary Information Budgetary Comparison Schedule for Sanitation Fund For the Year Ended June 30, 2006

	Budgeted Amounts			Variance to
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final Budget</u>
Beginning Year Fund Balance - July 1, 2005	\$ 84,712	\$ 84,712	\$ 84,712	\$ -
Resources (Inflows)				
Property Taxes	<u>78,088</u>	<u>78,088</u>	<u>78,667</u>	<u>579</u>
Amounts Available for Appropriation	162,800	162,800	163,379	579
Charges to Appropriations (Outflows)				
Public Works	55,575	55,575	42,540	13,035
Other	<u>2,700</u>	<u>2,700</u>	<u>2,076</u>	<u>624</u>
Total Charges to Appropriation	<u>58,275</u>	<u>58,275</u>	<u>44,616</u>	<u>13,659</u>
Budgetary Fund Balance - June 30, 2006	<u>\$ 104,525</u>	<u>\$ 104,525</u>	<u>\$ 118,763</u>	<u>\$ 14,238</u>

LILLEY TOWNSHIP

Required Supplementary Information
Budgetary Comparison Schedule for Fire Fund
For the Year Ended June 30, 2006

	Budgeted Amounts			Variance to
	Original	Final	Actual	Final Budget
Beginning Year Fund Balance - July 1, 2005	\$ 81,197	\$ 81,197	\$ 81,197	\$ -
Resources (Inflows)				
Property Taxes	35,050	35,050	35,208	158
Reimbursements	47,500	47,500	49,695	2,195
Amounts Available for Appropriation	163,747	163,747	166,100	2,353
Charges to Appropriations (Outflows)				
Public Safety	82,395	82,395	96,106	(13,711)
Other	3,900	3,900	8,623	(4,723)
Total Charges to Appropriation	86,295	86,295	104,729	(18,434)
Budgetary Fund Balance - June 30, 2006	\$ 77,452	\$ 77,452	\$ 61,371	\$ (16,081)

LILLEY TOWNSHIP

Combining Balance Sheet Non-Major Governmental Funds June 30, 2006

	Cemetery Fund	Building Inspection Fund	Total Non-Major Governmental Funds
ASSETS			
Cash	\$ 5,195	\$ 7,322	\$ 12,517
Accounts Receivable	-	1,219	1,219
Total Assets	\$ 5,195	\$ 8,541	\$ 13,736
LIABILITIES AND FUND EQUITY			
Liabilities			
Accounts Payable	\$ -	\$ 472	\$ 472
Total Liabilities	-	472	472
Fund Equity			
Fund Balances - Unreserved	5,195	8,069	13,264
Total Liabilities and Fund Equity	\$ 5,195	\$ 8,541	\$ 13,736

LILLEY TOWNSHIP

Combining Statement of Revenues, Expenditures and Changes in Fund Balance - Non-Major Governmental Funds For the Year Ended June 30, 2006

	Special Revenue Funds		
	Cemetery Fund	Inspection Fund	Total Non-Major Governmental Funds
Revenues			
Property Taxes	\$ 5,859	\$ -	\$ 5,859
Licences and Permits	-	14,946	14,946
Charges for Services	390	-	390
Total Revenues	6,249	14,946	21,195
Expenditures			
General Government	4,497	-	4,497
Public Safety	-	13,411	13,411
Other	2,067	123	2,190
Total Expenditures	6,564	13,534	20,098
Excess Revenue Over (Under) Expenditures	(315)	1,412	1,097
Fund Balance - July 1, 2005	5,510	6,657	12,167
Fund Balance - June 30, 2006	<u>\$ 5,195</u>	<u>\$ 8,069</u>	<u>\$ 13,264</u>

LILLEY TOWNSHIP

Statement of Revenues, Expenditures, and Changes in Fund Balance - Budget and Actual - General Fund For the Year Ended June 30, 2006

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Revenues			
Property Taxes	\$ 41,750	\$ 41,550	\$ (200)
State Shared Revenue	55,000	56,156	1,156
Local Grants	-	6,982	6,982
Licenses and Permits	1,600	710	(890)
Charges for Services	420	268	(152)
Refunds and Reimbursements	50	55	5
Rentals and Royalties	500	561	61
Interest	600	675	75
Total Revenues	99,920	106,957	7,037
Expenditures			
Legislative			
Township Board			
Salaries and Wages		1,950	
Supplies		66	
Contracted Services		6,441	
Transportation		186	
Printing & Publishing		228	
Dues		535	
Education & Training		70	
	8,050	9,476	(1,426)
General Government			
Supervisor			
Salaries and Wages		4,700	
Dues		40	
	4,850	4,740	110
Elections			
Supplies		77	
Printing & Publishing		46	
	1,350	123	1,227

Statement of Revenues, Expenditures and
Changes in fund Balance - General Fund (continued)

	<u>Budget</u>	<u>Actual</u>	<u>Favorable (Unfavorable)</u>
Assessor			
Supplies		630	
Contracted Services		<u>12,500</u>	
	12,950	13,130	(180)
Clerk			
Salaries & Wages		5,954	
Supplies		1,183	
Communications		492	
Repairs		163	
Dues		25	
Education & Training		170	
Capital Outlay		<u>5,515</u>	
	11,195	13,502	(2,307)
Board of Review			
Salaries and Wages		1,085	
Supplies		27	
Professional Services		49	
Transportation		53	
Printing & Publishing		210	
Education & Training		<u>270</u>	
	2,125	1,694	431
Treasurer			
Salaries and Wages		5,252	
Supplies		1,572	
Communications		533	
Repairs		152	
Education & Training		70	
Capital Outlay		<u>120</u>	
	8,420	7,699	721
Township Hall and Grounds			
Salaries and Wages		1,601	
Supplies		1,745	
Contracted Services		972	
Utilities		5,430	
Repairs		2,681	
Capital Outlay		<u>22,063</u>	
	<u>23,000</u>	<u>34,492</u>	<u>(11,492)</u>
Total General Government	71,940	84,856	(12,916)

Statement of Revenues, Expenditures and
Changes in fund Balance - General Fund (continued)

	Budget	Actual	Favorable (Unfavorable)
Public Safety			
Rescue			
Contracted Services	7,000	6,768	232
Total Public Safety	7,000	6,768	232
Community & Economic Development			
Planning			
Salaries & Wages		5,210	
Supplies		110	
Transportation		84	
Printing & Publishing		85	
	3,270	5,489	(2,219)
Zoning			
Salaries & Wages		2,160	
Supplies		9	
Transportation		177	
	6,075	2,346	3,729
Zoning Board of Appeals			
Printing & Publishing	1,020	69	951
Total Community & Economic Development	10,365	7,904	2,461
Other			
Retirement		1,050	
Insurance		3,739	
Payroll Taxes		1,176	
Total Other	17,300	5,965	11,335
Total Expenditures	106,605	105,493	1,112
Excess Revenues Over (Under) Expenditures	(6,685)	1,464	8,149
Fund Balance - July 1, 2005	125,123	125,123	-
Fund Balance - June 30, 2006	\$ 118,438	\$ 126,587	\$ 8,149



Hendon & Slate, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS



February 21, 2007

Township Board
Township of Lilley
Bitely, MI 49309

Dear Board Members:

In planning and performing our audit of the financial statements of Lilley Township, for the year ended June 30, 2006, we considered its internal control in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on internal control.

However, during our audit, we became aware of certain matters that are opportunities for strengthening internal controls and operating efficiency. This letter does not affect our report dated February 21, 2007, on the financial statements of Lilley Township.

We will review the status of these comments during our next audit engagement. We will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. Our comments are summarized as follows:

CURRENT YEAR COMMENTS

Books and Records

A few of the items we noted during our audit were missing receipts for purchases, remittance advices not attached to receipts, missing account numbers on the check stubs or invoices, and that the check numbers did not correspond with the accounting software. We recommend that the Township require receipts for all purchases and attach them to the invoice. When a check is written to pay for that invoice, the account number used to record the expenditure should also be written on the invoice. Conversely, remittance advices should be attached to the receipt book or yellow copy of the receipt. Also, care should be taken when issuing checks to ensure proper numbering.

Budgeting

The Township spent a material amount over the budget. The two largest amounts overspent were in the fire fund and the general fund. In the fire fund, total expenditures for public safety totaled \$96,106 compared to the budgeted amount of \$82,395 which caused an overexpenditure of \$13,711. Also, in the general fund, township hall & grounds was over spent by \$11,492 even though amendments were made to this item during the year. We recommend that the Board regularly compare the budget to actual expenditures and make amendments as necessary.

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711 West Main Street
Fremont, MI 49412
Phone (231) 924-6890
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Toll Free (800) 924-6891

Whitehall
116 West Colby, Suite B
Century Building
Whitehall, MI 49461
Phone (231) 893-6772
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1550 North Industrial Park Drive
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Another area in budgeting that requires attention is in the design of the budget. The State of Michigan requires Townships to comply with Michigan Public Act 2 of 1968, as amended, Section 15, which provides that a budget include the following:

- Actual expenditures for the most recently completed fiscal year;
- Estimated expenditures for the current fiscal year;
- An estimate of the expenditures in the next fiscal year;
- Actual revenue for the most recently completed fiscal year;
- Estimated revenue for the current fiscal year;
- An estimate of the revenue in the next fiscal year;
- Beginning and ending fund balance for each year;
- An estimate of the amounts needed for deficiency, contingent, or emergency purposes;
- Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.

We also noted that the funds were not budgeted for separately in the appropriations act. We recommend that each fund be separated and a budget amount be set individually not as a whole.

Uniform Chart of Accounts

In 2002, the State of Michigan up-dated the prescribed uniform chart of accounts that is to be used by all units of government within the state. We found that the Township is not in compliance with the chart of accounts at the activity code level. We recommend that the Uniform Chart of Accounts be reviewed and changes be made to the Townships chart of accounts as needed.

GASB 34 - BASIC FINANCIAL STATEMENTS - AND MANAGEMENT'S DISCUSSION AND ANALYSIS – FOR STATE AND LOCAL GOVERNMENTS

As you may have noticed, your financial statements have several significant changes this year. This is just a brief overview of what GASB 34 is and what it means to you. This statement makes many changes to the presentation of the financial statements. One of the most substantial changes is to add government-wide financial statements which are prepared using economic resources measurement focus and the full accrual basis of accounting (used by most for-profit business). These statements also report the Township's fixed assets and infrastructure at original purchase less depreciation. The fund financial statements continue to be presented as well, however, the columns presented have changed to the general fund and other "major" funds and a summary reconciliation is required to identify the differences between the government-wide and fund reports. This statement also prescribes the Required Supplementary Information (RSI) to include budgetary comparison schedules (as currently prescribed by the State of Michigan), however, with the addition of the originally adopted budget (as well as the final amended budget).

We again found the records to be maintained in good condition by both the clerk and treasurer, however, some information was not available to us during the first day of the audit. We ask that if any board member has questions regarding what information is needed by our staff, to contact us before the scheduled audit date to ensure an efficient audit process.

Please call our office if you have any questions or comments regarding this letter. We look forward to continuing to serve you.

Respectfully submitted,

A handwritten signature in black ink that reads "Jodi DeKuiper, CPA". The signature is written in a cursive, flowing style.

Jodi DeKuiper, CPA
Hendon & Slate, PC